



1918



Economic Conditions Governmental Finance United States Securities

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Responsibility For the War.

THE neutral world made up its mind promptly where the responsibility for this war belonged. The public record of Austria-Hungary's ultimatum to Serbia, of the latter's nearly complete compliance, of the efforts of Sir Edward Grey, the British Foreign Minister, to secure a conference of the powers, and the German reply that it must support its ally, furnished convincing evidence of an agreement between the two central powers to force the European situation to a decisive issue. The Germanic governments, however, in order to justify themselves to their people, have had to maintain the pretence that the war on their part was a defensive one and that England was the arch-conspirator.

This pretence is now completely exposed by German testimony entitled to the highest credence, a statement by Prince Lichnowsky, who was the Ambassador of Germany to Great Britain from November, 1912, until war between the two countries was declared in August, 1914. What German official could be in better position than he to know the attitude and purposes of the British Government, or to fix the responsibility for the break in peaceful relations?

In 1916 Prince Lichnowsky, who is of a distinguished Germanized Polish family, prepared a memorandum review, entitled "My London Mission, 1912-1914," in which he gave a detailed account of his negotiations with the British Foreign Office and of his relations with his home government during these important years, which covered the period from practically the beginning of the first Balkan war to the outbreak of the great war. He did not intend that this paper should be made public at the present time, but seems to have been impelled to write it for the family archives, in order that the truth of his own relations to the war and the political history preceding might be known at least to those close to him and perhaps eventually to the public. The first publication was made in the Swedish Socialist Journal, *Politiken*, in March. On March 16, the matter was brought

before the Main Committee of the Reichstag, and the Vice-Chancellor, Herr Von Payer, read a letter of explanation and apology, which had been written by Prince Lichnowsky to the Imperial Chancellor, Count Hertling, in which the Prince said that these "purely private notes" had found their way into wider circles "by an unprecedented breach of confidence." He said that he had

felt the need in regard to the future and with a view to my own justification, of noting the details of my experiences and impressions there before they vanished from my memory. These notes were intended in a certain degree only for family archives, and I wrote them down without documentary material or notes from the period of my official activity. I considered I might show them, on the assurance of absolute secrecy, to a very few political friends in whose judgment as well as trustworthiness I had equal confidence.

So much for the origin of the paper, which is completely authenticated. The paper itself supports all the statements of the British Foreign Office as to its efforts to maintain the peace of Europe and to bring about a fair and permanent adjustment of all matters which might be the cause of misunderstanding and controversy.

Menace of the Balkan War.

He says that shortly after his arrival in London, in 1912, "Sir Edward Grey proposed an informal exchange of views, in order to prevent a European war developing out of the Balkan War," and that

the British Minister by no means placed himself on the side of the Entente Powers, and during the negotiations, which lasted about eight months, he lent his good-will and powerful influence toward the establishment of an understanding. Instead of adopting the English point of view we accepted that dictated to us by Vienna. Count Mensdorff led the Triple Alliance in London and I was his second.

On every point, including Albania, the Serbian harbors in the Adriatic, Scutari, and in the definition of the Albanian frontiers, we were on the side of Austria and Italy, while Sir Edward Grey hardly ever took the French or Russian point of view. On the contrary, he nearly always took our part in order to give no pretext for war—which was afterward brought about by a dead Archduke. It was with his help that King Nicholas was induced to leave Scutari. Otherwise there would have been war over this matter, as we should never have dared to ask 'our allies' to make concessions.

Sir Edward Grey conducted the negotiations with care, calm, and tact. When a question threatened to become involved he proposed a formula which met the case and always secured consent, he acquired the full confidence of all representatives.

He tells of the conciliatory attitude of the British Government in reaching an agreement as to territorial lines in Africa, and as to the Bagdad Railway. The agreement upon the railway, he says, aimed, in fact, at spheres of

influence in Asia Minor, "although this consideration was carefully avoided, out of consideration for the Sultan's rights." This treaty, which was practically ready for signatures, was arranged with the "effective co-operation of Herr Von Kuhlmann," who is now Foreign Secretary of the Imperial German Government, but notoriously viewed with suspicion by the military party.

During these critical years Prince Lichnowsky, himself earnestly desirous of promoting peace and completely satisfied that the British Government had the same purpose in view, labored to bring about a good understanding between the countries, but the policy of his home government made difficulties for him. He was sanguine, however, of success, and when in Germany, in June, 1914, after the assassination of the Austrian Archduke, he was confident there would be no war.

The Crisis, 1914.

I went to Silesia, and on my way back to London I spent only a few hours in Berlin, where I heard that Austria intended to proceed against Serbia, in order to put an end to an intolerable state of affairs.

Unfortunately I under-estimated at the moment the importance of the news. I thought that nothing would come of it after all, and that, if Russia threatened, the trouble could easily be composed. Now I regret that I did not stay in Berlin and say at once that I would have no share in any such policy.

Subsequently I learnt that at the decisive conversation at Potsdam on July 5 the inquiry addressed to us by Vienna found absolute assent among all the personages in authority; indeed, they added that there would be no harm if a war with Russia were to result. So, at any rate, it is stated in the Austrian protocol which Count Mensdorff (Austrian Ambassador) received in London. Soon afterwards Herr von Jagow was in Vienna, to discuss everything with Count Berchtold (Austrian Foreign Minister).

I then received instructions that I was to induce the English Press to take up a friendly attitude if Austria gave the "death-blow" to the Great Serbian movement and as far as possible I was by my influence to prevent public opinion from opposing Austria.

I gave a warning against the whole project, which I described as adventurous and dangerous, and I advised that moderation should be recommended to the Austrians, because I did not believe in the localization of the conflict.

Herr von Jagow answered me that Russia was not ready; there would doubtless be a certain amount of bluster, but the more firmly we stood by Austria the more would Russia draw back. He said that Austria was already accusing us of want of spirit, and that we should not squeeze her. On the other hand, feeling in Russia was becoming ever more anti-German, and so we must simply risk it.

This attitude, as I learnt later, was based upon reports from Count Pourtales (German Ambassador in Petrograd) to the effect that Russia would not move in any circumstances; these reports caused us to stimulate Count Berchtold to the greatest possible energy. Consequently I hoped for salvation from an English mediation, because I knew that Sir Edward Grey's influence in Petrograd could be turned to use in favor of peace. So I used my friendly relations with Sir Edward Grey, and in confidence begged him to advise moderation in Russia if Austria, as it seemed, demanded satisfaction from the Serbs.

The Serbian reply was in accordance with British efforts; M. Fashitch had actually accepted everything, except two points, about which he declared his readiness to negotiate. If Russia and England had wanted war, in order to fall upon us, a hint to Belgrade would have been sufficient, and the unheard-of (Austrian) Note would have remained unanswered.

Nothing But Goodwill Required.

Sir Edward Grey went through the Serbian reply with me, and pointed to the conciliatory attitude of the Government at Belgrade. We then discussed his mediation proposal, which was to arrange an interpretation of the two points acceptable to both parties. M. Cambon (French Ambassador in London), the Marquis Imperiali (Italian Ambassador in London), and I should have met under Sir Edward Grey's presidency, and it would have been easy to find an acceptable form for the disputed points, which in the main concerned the participation of Austrian officials in the investigation at Belgrade. Given good will, everything could have been settled in one or two sittings, and the mere acceptance of the British proposal would have relieved the tension and would have further improved our relations to England. I urgently recommended the proposal, saying that otherwise world-war was imminent, in which we had everything to

lose and nothing to gain. In vain! I was told that it was against the dignity of Austria, and that we did not want to interfere in the Serbian business, but left it to our Ally. I was told to work for "localization of the conflict."

Of course it would only have needed a hint from Berlin to make Count Berchtold satisfy himself with a diplomatic success and put up with the Serbian reply. But this hint was not given. On the contrary, we pressed for war. What a fine success it would have been!

After our refusal Sir Edward asked us to come forward with a proposal of our own. We insisted upon war. I could get no other answer (from Berlin) than that it was an enormous "conciliatoriness" on the part of Austria to contemplate no annexation of territory.

At another place in the memorandum he says:

During the critical days of July, 1914, Sir Edward said to me: "If ever you want something done in St. Petersburg you come to me regularly, but if ever I appeal for your influence in Vienna you refuse your support."

Even after this Sir Edward Grey still looked for new ways of escape. He said to me repeatedly: "If war breaks out it will be the greatest catastrophe the world has ever seen."

Grey and Asquith Men of Peace.

The attacks upon Sir Edward Grey in the German press offended his sense of justice, and he gives a personal sketch of both Grey and Asquith, the British Prime Minister. Of Grey he says:

Sir Edward Grey's influence in all questions of foreign policy was almost unlimited. True, he used to say on important occasions:—"I must lay that before the Cabinet"; but it is equally true that the latter invariably took his view.

Sprung from an old North of England family of landowners, from whom the statesman Earl Grey is also descended, he joined the left wing of his party and sympathized with the Socialists and pacifists. He can be called a Socialist in the ideal sense, for he applied his theories even in private life, which is characterized by great simplicity and unpretentiousness, although he is possessed of considerable means. All display is foreign to him.

His simple, upright manner insured him the esteem even of his opponents, who were more easily to be found in home than in foreign political circles.

Lies and intrigues were foreign to his nature. His wife, whom he loved and from whom he was never separated, died as the result of an accident to the carriage driven by him. As is known, one brother was killed by a lion.

Wordsworth was his favorite poet, and he could quote him by the hour. His British calm did not lack a sense of humour. When breakfasting with us and the children and he heard their German conversation, he would say, "I cannot help admiring the way they talk German," and laughed at his joke. This is the man who was called "the Liar Grey" and the "originator of the world war."

He has the following to say of Asquith:

Asquith is a man of quite different mould. A jovial, sociable fellow, a friend of the ladies, especially young and beautiful ones, he loves cheery surroundings and a good cook, and is supported by a cheery young wife. He was formerly a well-known lawyer, with a large income and many years' Parliamentary experience. Later he was known as a Minister under Gladstone, a pacifist like his friend Grey, and friendly to an understanding with Germany. He treated all questions with an experienced business man's calm and certainty, and enjoyed good health and excellent nerves, steeled by assiduous golf.

His daughters went to a German boarding-school and speak fluent German. We quickly became good friends with him and his family, and were guests at his little house on the Thames. He only rarely occupied himself with foreign affairs. When important questions cropped up, with him lay the ultimate decision. During the critical days of July Asquith often came to warn us, and he was ultimately in despair over the tragic turn of events. On August 2, when I saw Asquith in order to make a final attempt, he was completely broken, and although quite calm tears ran down his face.

Summing Up Germany's Policy.

Prince Lichnowsky sums up the situation which led to war as follows:

"As appears from all official publications, without the facts being controverted by our own White Book, which, owing to its poverty and gaps, constitutes a grave self-accusation:

"1. We encouraged Count Berchtold to attack Serbia, although no German interest was involved, and the danger of a world war must have been known to us—whether we knew the text of the ultimatum is a question of complete indifference.

"2. In the days between July 23 and July 30, 1914, when M. Sazonoff emphatically declared that Russia could not tolerate an attack upon Serbia, we rejected the British proposals of mediation, although Serbia, under Russian and British pressure,

had accepted almost the whole ultimatum, and although an agreement about the two points in question could easily have been reached, and Count Berchtold was even ready to satisfy himself with the Serbian reply.

"3. On July 30, when Count Berchtold wanted to give way we, without Austria having been attacked, replied to Russia's mere mobilization by sending an ultimatum to St. Petersburg, and on July 31 we declared war on the Russians, although the Czar had pledged his word that as long as negotiations continued not a man should march—so that we deliberately destroyed the possibility of a peaceful settlement.

"In view of these indisputable facts, it is not surprising that the whole civilized world outside Germany attributes to us the sole guilt for the world war."

German Vice-Chancellor on Lichnowsky.

The Vice-Chancellor, in discussing the memorandum before the Reichstag Committee, said in part:

Some assertions in his documents must, however, be contradicted, especially his assertions about political events in the last months preceding the war. Prince Lichnowsky was not of his own knowledge acquainted with these events, but he apparently received from a third, and wrongly informed quarter, inaccurate information. The key to the mistakes and false conclusions may also be the Prince's overestimation of his own services, which are accompanied by hatred against those who do not recognize his achievements as he expected. The entire memorandum is penetrated by a striking veneration for foreign diplomats, especially the British, who are described in a truly affectionate manner, and, on the other hand, by an equally striking irritation against almost all German statesmen. The result was that the Prince frequently regarded Germany's most zealous enemy as her best friend because they were personally on good terms with him.

He characterized as false the statements that Von Moltke had urged war, that the then Foreign Secretary had visited Berlin in 1914, and that the German Ambassador at Petrograd had reported that Russia would in no event move.

Von Jagow's Reply.

Herr Von Jagow, German Foreign Secretary in 1914, has issued a statement commenting upon and denying some of the statements of Prince Lichnowsky's paper, among them that he visited Vienna in 1914. After taking account of these, however, his admissions must be regarded as more important. He confirms, "as far as he remembers," the expressions quoted from him. The reply is chiefly in defense and vindication of himself. Of the Bagdad railway negotiations he says:

When, in January, 1913, I was appointed Secretary of State I regarded a German-English *rapprochement* as desirable, and an agreement about the points at which our interests touched or crossed as obtainable. In any case I wanted to try to work in this sense. A main point for us was the Mesopotamia-Asia Minor question—the so-called Bagdad policy—because it had become for us a question of prestige. If England wanted to push us out there, a conflict seemed, indeed, to me to be hardly avoidable. As soon as possible I took up in Berlin the settlement about the Bagdad Railway. We found the English Government ready to meet us, and the result was the agreement which had almost been completed when the world-war broke out.

At the same time the negotiations about the Portuguese colonies, which had been begun by Count Metternich and continued by Baron Marschall, were resumed by Prince Lichnowsky. I intended to begin later on—when the Bagdad railway question, in my opinion the most important question, had been settled—further agreements about other questions, in the Far East, for example.

Referring to Prince Lichnowsky's policy of developing closer relations with England, instead of backing up to the limit the aspirations of Austria in the Balkans, he says:

I also pursued a policy which aimed at an agreement with England, because I was of the opinion that this was the only road by which we could get out of the unfavorable situation into which the unequal distribution of strength and the weakness of the Triple Alliance had brought us.

"Political marriages until death us do part" are, as Prince Lichnowsky says, impossible in international relations. But in

the existing state of affairs in Europe isolations are equally impossible. The history of Europe is composed of coalitions, some of which have led to the avoidance of wars and some to violent conflicts. A loosening and final dissolution of old unions which no longer satisfy all the conditions cannot be recommended until new constellations are within reach. That was the aim of our policy of *rapprochement* with England. As long as this policy did not provide trustworthy guarantees we could not abandon the old securities—and the obligations which they involved.

The extreme policy of Germany in supporting Austria is partially explained in this paragraph:

Our Morocco policy had led to a political defeat. Happily this had been avoided in the Bosnian crisis, and at the London Conference. A fresh diminution of our prestige was intolerable for our position in Europe and in the world. The prosperity of States, and their political and economic successes, depend upon the prestige which they enjoy in the world.

Herr Von Jagow is fair enough to add his testimony to that of Prince Lichnowsky, as to Sir Edward Grey's desire to maintain peace. He says:

I am by no means willing to adopt the opinion, which is at present widely held in Germany, that England laid all the mines which caused the war; on the contrary, I believe in Sir Edward Grey's love of peace and in his serious wish to reach an agreement with us. But he had involved himself too deeply in the net of Franco-Russian policy. He could no longer find the way out, and he did not prevent the world-war—as he could have done. Among the English people also the war was not popular, and Belgium had to serve as a battlefield.

Just what more Sir Edward Grey might have done to avert the war Von Jagow does not say, but presumably he means that the British Minister might have persuaded Serbia to yield unconditionally, or Russia to refrain from intervening in Serbia's behalf. What he says corroborates the main statements of Lichnowsky's paper.

The Pan-German newspapers of Germany are demanding that Prince Lichnowsky shall be tried for treason. The Socialist papers give weight to his statements. The *Vorwaerts*, although now supporting the government, says that the efforts to discredit Lichnowsky's ability and discernment merely means that the most important Ambassadorial post that Germany had at her disposal was occupied by a fool and a blockhead.

The *Mannheimer Volkstimme* says that "either Prince Lichnowsky is the most incurable idiot who ever sat in an ambassador's chair, or else not a shred remains of the fiction that the outbreak of war was caused by English intrigues."

An Historical Document of the First Importance.

There is no possible answer to this comment, and no room to question that the Lichnowsky memorandum is an historical document of the first importance. The explanation that he was disappointed and aggrieved because the Berlin government did not accept his view as to the policies to be pursued, does not break the force of his statements. As an honest man sincerely desirous of promoting peace among the nations of Europe, he had good reason to feel indignant and for wishing to put on record for the future an account of his Ministry. If there are inaccuracies as to minor details, such as Von Jagow's visit to

Vienna, concerning which he doubtless believed himself well informed, they do not affect the validity of the main account, or the sincerity of his purposes. Compared with the monstrous falsehoods about the origin of the war, which have been imposed upon the people of Germany, his story is the veritable truth, supported by abundant evidence. Together with Herr von Jagow's reply it should be placed in every home in the United States. It is a complete answer to the insidious pro-German propaganda which has been widely circulated, and which has misled many credulous persons of anti-British proclivities. It is of the utmost importance that our people have a full appreciation of the responsibility which belongs to the German Government for bringing on this war.

Testimony From A Krupp Director.

In the same speech before the Reichstag Committee, in which Vice-Chancellor Von Payer discussed the Lichnowsky memorandum, he also referred to a letter written by a Dr. Muhlon, a German of high social and business standing now living in Switzerland, but who at the outbreak of the war was a director in Krupps. Notwithstanding his connection with the great gun works, Muhlon seems to have comprehended the awful crime against humanity involved in wantonly bringing on the war. His statement, in part, was as follows:

In the middle of July, 1914, I had, as I frequently had, a conversation with Dr. Helfferich, then director of the Deutsche Bank in Berlin, and now Vice-Chancellor. The Deutsche Bank had adopted a negative attitude towards certain large transactions in Bulgaria and Turkey, in which the firm of Krupp, for business reasons—delivery of material—had a lively interest. As one of the reasons to justify the attitude of the Deutsche Bank, Dr. Helfferich finally gave me the following reason:—

"The political situation has become very menacing. The Deutsche Bank must in any case wait before entering into any further engagements abroad. The Austrians have just been with the Kaiser. In a week's time Vienna will send a very severe ultimatum to Serbia, with a very short interval for the answer. The ultimatum will contain demands such as punishment of a number of officers, dissolution of political associations, criminal investigations in Serbia by Austrian officials, and, in fact, a whole series of definite satisfactions will be demanded at once; otherwise Austria-Hungary will declare war on Serbia."

Dr. Helfferich added that the Kaiser had expressed his decided approval of this procedure on the part of Austria-Hungary. He had said that he regarded a conflict with Serbia as an internal affair between these two countries, in which he would permit no other State to interfere. If Russia mobilized, he would mobilize also. But in this case mobilization meant immediate war. This time there would be no oscillation. Helfferich said that the Austrians were extremely well satisfied at this determined attitude on the part of the Kaiser.

When I thereupon said to Dr. Helfferich that this uncanny communication converted my fears of a world-war, which were already strong, into absolute certainty, he replied that it certainly looked like that. But perhaps France and Russia would reconsider the matter. In any case the Serbs deserved a lesson which they would remember. This was the first intimation that I had received about the Kaiser's discussions with our Allies. I knew Dr. Helfferich's particularly intimate relations with the personages who were sure to be initiated, and I knew that this communication was trustworthy.

After my return from Berlin I informed Herr Krupp von Bohlen and Halbach, one of whose directors I then was at Essen. Dr. Helfferich had given me permission, and at that time the intention was to make him a director of Krupps'. Herr von Bohlen seemed disturbed that Dr. Helfferich was in possession of such information, and he made a remark to the effect that the Government people can never keep their mouths shut. He then told me the following. He said that he had himself been with the Kaiser in the last few days. The Kaiser had spoken to him also of his conversation with the Austrians, and of its result; but he had described the matter as so secret that he (Krupp) would not even have dared to inform his own directors. As, how-

ever, I already knew, he could tell me that Helfferich's statements were accurate. Indeed, Helfferich seemed to know more details than he did. He said that the situation was really very serious. The Kaiser had told him that he would declare war immediately if Russia mobilized, and that this time people would see that he did not turn about. The Kaiser's repeated insistence that this time nobody would be able to accuse him of indecision had, he said, been almost comic in its effect.

This is circumstantial, corroborative of the Lichnowsky statements, and in harmony with all the known facts. What Herr Von Jagow says about the loss of German prestige in the Morocco case throws light upon what Dr. Muhlon says of the Kaiser's almost comic insistence that nobody would be able to accuse him of indecision this time. There is an accumulation of evidence that the situation, instead of developing suddenly while the Kaiser was innocently absent on a yachting trip, had been carefully planned in conference by the responsible authorities of Germany and Austria-Hungary. The time was judged to be ripe to extend the German-Austrian influence in the Balkan States, thus opening up the way to Asia Minor, where Germany's ambitions in recent years had been centered. The assassination of the heir to the Austrian throne provided the occasion, Russia was not ready for war, England probably would not come in, and, in the words of the German Foreign Secretary, "We must simply risk it."

This is the inner history from German sources of the beginning of the war, which the German Government represents as brought on by England and inspired by trade jealousy.

Von Payer's comment upon the Muhlon disclosures was that the gentleman was suffering from neurasthenia, and that no attention need be paid to his statements since the important gentlemen quoted by him denied having made the statements attributed to them.

War At the Crisis.

The German attack, which began on March 21, has continued with slight relaxations of intensity ever since. More men have been in action than at any other time of the war, and the casualties upon both sides have been very large. There is every reason to believe that they have been heavier to the attacking forces than to those on the defensive, since although the latter have lost ground, they have not been demoralized, but have retired in orderly manner. Such wastage as the German armies are now suffering must hasten the end of the war, for it cannot be made good or kept up for an indefinite period. Unquestionably, the German war council has set out to smash the Allied line now, before the United States troops arrive in force, and every possible resource is being used. This is the crisis of the war, for while Germany is sacrificing her divisions the Allies are growing stronger. If Germany cannot win now how can she hope to do so later, with fewer men and with an American army of 5,000,000 or 10,000,000 men added to the armies of the

Allies, and the steel-making capacity of this country, which alone is twice that of Germany, devoted almost wholly to war materials?

The German people have been greatly inspired by the conclusion of peace with Russia upon terms which, if they stand permanently, will largely enhance the military and industrial power of the German Empire. Evidently there has been a revival of confidence in the ability of the military autocracy to produce results. There is a marked reaction from the state of mind represented by the Reichstag resolutions of last July, in favor of peace without indemnities or annexations. The Pan-Germans are aggressive again, urging the repeal of the July resolution, and the Liberals are silent. The Socialistic organ, *Vorwaerts*, commenting on the resolutions adopted recently by the Inter-Allied Socialist Conference, in London, says:

The time for such more or less academic considerations is past. All Socialistic effort must be concentrated upon a peace which is tenable and bearable for all. And why should it be unbearable for England, France, Belgium and Italy if a peace were concluded which restored in the main the pre-war conditions in the West? In any case they would do well to remember that a programme is unworkable as a practical peace programme which is drawn up beforehand to the disadvantage of the Central Powers. Such a programme could not be realized either by an international Socialist Congress or by a diplomatic conference, but only by the victory of the Entente.

If this is representative of the element in Germany which is most antagonistic to the military domination, it may be judged how slender at present is the prospect for peace upon any basis that will give security to the non-German world. The military autocracy has been established in Germany by successful aggression. The country has gained in territory, wealth and power by its attacks in the past upon Denmark, Austria and France, and with every peace dictated by the sword the military party is more firmly seated at home and a greater menace abroad. If this war should end with a treaty based upon the theory that Germany is the victor, the other countries will have no alternative but to prepare upon a greater military scale than ever before for defense against the next attack. The invasion of Belgium, the memoirs of Prince Lichnowsky, the expressions of Von Jagow and the Emperor upon the subject of German "prestige" show this conclusively. The only way security can be had against the party now in the saddle in Germany is indicated by *Vorwaerts*—"by the victory of the Entente." The people of Germany must be convinced that militarism will no longer bring more territory, larger markets and greater prosperity. There never will be a better time than now to determine whether or not militarism is to rule the world.

America's Activities Quickening.

The situation in France has stimulated the activities of this country. Vessels have been pressed into service and it is no secret that troops are going forward rapidly. As fast as they leave the training camps more men are called to the colors, more cantonments will be built, and men will go

across as fast as transportation can be provided. The shipping situation is looking better. The yards are well manned, conditions are more settled, proficiency is improving as the workmen gain experience, and now that Charles M. Schwab has been drafted to head the work, confidence is felt that the period of divided authority and confusion is over, and that really great achievements are to come. After a few more months, when the launchings from the big new yards begin, ships will come forward in a rapidly increasing stream.

Concentrating on War Work.

The entire industrial situation is coming into more satisfactory shape, as war work assumes its proper proportions, and production for ordinary consumption shrinks correspondingly. The country is being organized to the one great purpose which is now supreme. Less than a year ago people were arguing that the war requirements could be met by speeding up and enlarging the capacity of the industries, allowing other consumption to go on as usual. It was even said that five or ten per cent. of the capacity of the steel works, and about the same share of the capacity of the textile mills, would take care of the war requirements, but today it is realized that the government can use practically the entire capacity of the steel industry, all of the woollen mills, and a very large percentage of the cotton goods capacity, and all of the man-power that can be possibly had. Not one day's work can the country afford to spare to unnecessary things while the line wavers in France. Non-essential industries, and relatively unimportant ones, are being converted to important work. Through the reorganized War Industries Board the guiding hand of the Government is reaching into every locality and every business and co-ordinating all agencies to the task in hand. This is as it should be and must be, for the result of the war will depend upon superiority in industrial concentration. Germany is ruthlessly shutting down small works and concentrating machinery and labor where it can be used to the best advantage. Recent figures show that of 1,700 weaving and spinning mills only 70 are still working at high pressure, in the boot and shoe industry 300 factories are all that remain out of 1,400, and in the oil industry 15 establishments out of 720. Of course these reductions are not wholly due to concentration; a shortage of raw materials is largely responsible.

Between now and the opening of another winter it is expected that the facilities and methods of transportation will be very much improved. The co-ordination of the railways will be worked out, terminal conditions will be bettered, cars will be built, and the water lines will be brought into use. The new Erie Canal is now open in practically its entire length, and has been taken over by the Federal authorities for use in con-

junction with the rail lines, barges will be constructed, and lake and river lines established in the middle West. All this is work which will not show immediately on the battle front in France, but ultimately the effects will tell there. Moreover, permanent benefits will surely result.

The Country United.

The best of all signs are those which tell of growing unity and resolution of purpose among the people. The gravity of the conflict, the cost in young life each day, the importance of putting our full powers into it, are coming home to the people. They are seeing that it is not to be settled by mere pacifist speeches or conventions. It must be fought out to either victory or defeat—to supremacy for the ideas which America represents, or supremacy for the German military power. When this is fully accepted, as it is rapidly coming to be, the real power of this country will come into action.

Labor conditions are better. There is a spirit of emulation and enthusiasm in the shipyards which is prophetic, and patriotism is a dominant note. A national industrial board of mediation and conciliation, composed of six employers, six representatives of labor and two representatives of the public has been created in Washington, and has agreed upon certain principles which it will endeavor to have recognized as the basis of industrial peace during the war. The most important condition is that all controversies shall be arbitrated without cessation of work. Lessons are likely to be learned from this experience that will be of lasting value in the promotion of industrial harmony. The heads of the labor organizations are agreed to the arrangement and there is no reason to doubt that they are sincerely and loyally supporting the Government, and alive to the issues of the war. Allowance must be made for some of the difficulties with which they are contending in dealing with great bodies of men, many of whom are not as well informed as themselves.

Bond subscriptions for the Third Liberty Loan among the wage-earners are more general than for any of the preceding loans. The causes of the war, the reasons why this country entered it, the vital interests of all classes in victory, are becoming daily more clearly understood, but there should be no relaxation of the efforts to make them known.

Germany's World of Enemies.

The relations between Holland and Germany are very much strained, and the attitude of Sweden toward Germany is one of alarm, owing to the arrival of German troops in Finland and on the Aland Islands. There is fear that Finland, with which the relations of Sweden are naturally intimate, and through which Sweden has access to Russia, may become a mere dependency of Germany. The Conservative party of Finland,

represented by the White Guard, admits applying to Germany for aid against the Red Guard, which represents the Bolsheviki element, but claims that it applied to Sweden in vain and had recourse to Germany because help for the maintenance of order could be had nowhere else. The White Guard and its German allies, not content with fighting the Red Guard, are attempting to seize the Russian peninsula upon which is located the open port of Kola, which is connected with Petrograd by the newly constructed railway, but British and French troops have been landed there to defend the territory and probably to prevent stores at Kola from falling into German hands.

The relations between Uruguay and Germany are at a critical stage, owing to a recent violation of neutral rights on the high seas by a German submarine. The attitude of the Argentine Government continues sympathetic to the United States and hostile to German policies, but so far the German Government by compliance with Argentine demands has averted a declaration of war. Brazil is fully into the war, has leased the German ships seized in its harbors to France, its navy is doing patrol duty, has passed a conscription law, and has in training an army which will probably be sent to France before long. A commission of army engineers is now in this country buying army equipment and supplies. All the other countries of South and Central America are sympathetic toward the course pursued by the United States.

Russia, although unable to help itself at present, is boiling with resentment for the indignities imposed upon the country by Germany, and the loss of territory will be a lasting grievance. There is continual friction with the German officials in the Ukraine and occupied provinces, and whenever Russia is in position to exert her national strength there will be another chapter added to the late peace negotiations.

Third Liberty Loan.

At this writing the Third Liberty Loan, for \$3,000,000,000 and over-subscriptions, is in its last week. The subscriptions have come more readily in the smaller cities and rural communities than heretofore, a fact which may be attributed in part to better organization and in part to a better general comprehension of the national effort called for by the war. The Minneapolis district, which failed to raise its quota of the first loan, completed its quota for the third loan in the first week, and will go over it by 50 per cent. or more. The change in the attitude of the foreign-born population is marked. The ninth district of the City of Minneapolis, of which the population is ninety per cent. of foreign blood, subscribed \$60,000 to the Second Loan after a full month of canvassing, and \$375,000 in the first week of the Third Loan. These sums are mainly in \$50 and \$100 subscriptions. The small towns and farming dis-

tricts in the Middle West are reported as generally over their quotas for this Loan.

We take this to mean that the people are now satisfied that the United States is rightfully in the war, and are rallying to the support of their sons who are on the way to France. The ideas which had a certain currency in the early days of the war, that it was no affair of ours, that it was only a quarrel among the royalties of Europe, that it was promoted by Wall Street and munition manufacturers, all of which were countenanced for a time by persons who should have known better, have been dissipated. It is realized that the modern world is too small for the United States to be remote and detached from any struggle in which fundamental public rights are involved.

New York City is behind the record made in the other two loans, which is due in part to the fact that many corporations and individuals having their offices in this city and which have heretofore entered their subscriptions here are this time subscribing where their works or residences are located. This is the result of close canvassing elsewhere. The heavy income and excess profits taxes which must be paid next month are also affecting the large subscriptions. Men in business, although their books show taxable profits, find it difficult to spare money from working capital. The railway companies are affected by their new situation, and by the low earnings of the winter months. Finally, many of the large subscribers to the previous loans borrowed freely for their payments, have not liquidated this indebtedness and feel constrained to catch up. Nevertheless it is believed that every Federal Reserve district will show an oversubscription.

Money Market.

Time money is on a 6 per cent. basis and the market is without unusual features. Call money has ranged from 2 to 6 per cent. during the month, with 4 to 5 as the common range. Considering the heavy payments in sight, for the Liberty Loan and taxes and the enormous turnover in trade and industry, the situation is easier than might be expected, but this is explained by the increased resort to the Federal Reserve banks. The gain in freight deliveries and increased marketing of grain and live stock since the 1st of March has promoted a more rapid movement of funds. There is a good distribution of commercial paper the country over, and current requirements of money seem to be satisfactorily met.

The Federal Reserve banks have taken care of the commercial loan expansion this spring. At the opening of the campaign for the Second Liberty Loan early last October, the total earning assets of the Federal Reserve banks were \$580,851,000. They rose from that to \$1,081,022,000

on December 21, by which time the loan was mainly paid up, then gradually declined to \$951,989,000 on February 15, from which they had risen to \$1,286,162,000 on April 26. The loans and investments of the member banks reporting to the Federal Reserve Board, other than those secured by government obligations, aggregated \$9,985,734,000 on April 19, which compares with \$9,574,074,000 on December 28, and \$9,941,331,000 on March 1. But while the member banks have been keeping down their holdings of loans to customers (by re-discounting at the Federal Reserve banks) they have been increasing their holdings of government securities from \$891,626,000 on December 28 to \$2,106,770,000 on April 19. The latter consist chiefly of certificates of indebtedness, which will be paid off out of the proceeds of the Third Liberty Loan, but that operation will probably involve a further increase of individual loans. There is no dodging the fact that these figures show continual expansion. The total earning assets of the twelve Federal Reserve banks in April, 1917, were about \$225,000,000.

Of course, this increase of loans is accompanied by an increase of deposits, and it is surprising how many persons, even among bankers, comment upon increasing deposits under these conditions as a favorable sign. They argue from increasing deposits an increasing ability to make loans, although every banker must know from his own experience that these deposits are due to the growth of the loans. It is an obvious fallacy to suppose that deposits which are created by loans increase the capacity of the banks to make more loans. A bank customer borrows and takes credit in his account; he checks the sum out in the course of business and his check becomes a deposit in another bank; the same thing is going on in tens of thousands of instances, and the volume of bank deposits is swollen in each instance, and remains swollen except as drawn upon to pay off bank loans. The latter action constitutes the only method by which this process of inflation is counteracted.

This increase of bank deposits is not a matter for congratulations. It means inflation, a corresponding increase of prices, higher war costs, and a greater indebtedness to be paid off after the war.

The Bond Market.

Following the record-breaking days in Liberty bonds recorded during the last week of March, the April bond market opened relatively firm but with only moderate activity. This was anticipated, as the Third Liberty Loan has absorbed the attention of the bond houses during the month, their entire organizations having devoted their energies to the successful flotation of the Loan. No new issues of importance have been offered but short-

ly after the close of the Liberty campaign several new issues are anticipated, as it has been reported that the Capital Issues Committee approved \$33,000,000 of securities during the week ending April 15.

In spite of the German drive, which has brought us discouraging news from week to week, prices generally have remained firm with advances in many issues, though the market has been generally dull. New York City issues in general suffered declines, and Deputy Comptroller Philbin announced the sale of \$5,000,000 New York Revenue Bills on a 4.875% basis compared with the sale of \$8,000,000 on March 12 on a 4.79% basis.

French municipal issues were the outstanding feature of the general advance, while public utilities registered their first improvement of the year.

The third week of the month found the stock market active and firm, with specialties enjoying substantial advances. Liberty 3½s were stronger and the First and Second 4s advanced about ½% but did not reach their high figures of March.

There has been little liquidation during the progress of the Loan and few offerings are pressed for sale. A continuance of this condition should undoubtedly result in an upward swing in bond prices during May if the Liberty Loan is substantially over-subscribed.

The average price of 40 standard issues as reported by the *Wall Street Journal* on April 29, was 83.61, which shows an advance of .64 compared with 82.97 on March 28, and a decline of 8.39 compared with the price of 92.00 on April 29, 1917.

Foreign Exchanges.

The long-contemplated measure to permit the melting of silver dollars, for the purpose of increasing the supply of silver bullion available for the settlement of foreign exchange balances, finally passed Congress almost without opposition, the provisions having been so adjusted that no permanent change in the country's monetary system is effected. The number of dollar pieces which may be released is 350,000,000, and the resulting billion may be sold by the Secretary of the Treasury at not less than \$1 per fine ounce of silver contained, but upon every such sale the Secretary is directed to immediately instruct the Director of the Mint to purchase an equal amount of fine silver bullion, the product of mines located in the United States and of smelting works so located, at the fixed price of \$1 per ounce, the said silver to be coined to replace the dollar pieces melted. In case the market price should rise above \$1 per ounce purchases evidently will be postponed.

No silver dollars may be melted except as silver certificates which may be outstanding

against them, are retired, and in order to avoid any contraction of the currency supply the Federal Reserve banks will be permitted or required by the Federal Reserve Board to issue Federal Reserve bank notes in amount equal to the silver dollars melted, these notes to be secured by United States Treasury Certificates or one year gold notes. These new bank notes must be retired when and as new silver dollars are coined to replace the dollars melted. The provisions as to reserve which have heretofore applied to Federal Reserve bank notes will apply to these notes, and are the same as for national bank notes.

This act adds the equivalent of nearly two years' production of silver at the present rate to the world's stock, and will enable this country to settle trade balances in favor of India and other silver-importing countries.

Abnormal Exchange Conditions.

The high price of silver is causing an export movement of silver coin from the countries of Central and South America and Mexico which threatens to denude them of coin for local trade uses. Large quantities are being received at the United States Assay Office in this city. Another novel feature is a premium upon gold for exportation to certain countries. Under the United States embargo regulations gold imported into this country in the form of ore may be re-exported to the country from whence it was received, and the demand for means of remittance to those countries has placed this gold at a premium.

The United States Government is understood to have negotiations under way with several countries looking to the support of dollar exchange. We have heretofore mentioned the granting of extensive credits by Argentina to Great Britain, France and the United States. Brazil has granted a large credit to France and Uruguay has granted one to Great Britain. An arrangement having official approval has been effected by which a committee of Spanish bankers and merchants will grant credits to a similar organization of Frenchmen at the rate of about \$7,000,000 per month, in the form of drafts running ninety days and renewable for two years. An arrangement similar to this has been in effect for some months between France and Switzerland, and another has been announced recently between England and Switzerland.

Just at this time the exchange situation between the United States and Spain is more unfavorable to the dollar than at any time heretofore, although it has been unfavorable for two years. The par of the Spanish peseta is 19.3 cents, and for years prior to the outbreak of the war the paper and silver pesetas were below par, but the exchange rate last month was as high as 30, and is now about 27½ or at a premium of about 50 per cent.

These conditions are abnormal, and due to the unbalanced state of trade, but there are persons who insist upon holding bankers and exchange dealers responsible. When there is no restraint upon shipments of gold, and transportation and insurance charges are normal, exchange rates seldom exceed by more than a fractional percentage the cost of shipping gold, and are usually below it, but with an embargo upon the movement of gold the establishment of a credit in a country like Spain is a difficult matter.

Spanish Exchange.

There is evidently much misapprehension upon this subject. It is commented upon as a very simple matter, involving "only the transfer of credit," as though it was something that could be handled wholly from here. But credit must be granted in Spain; arrangements must be effected with responsible parties in Spain by which they will assume and pay the debts owing there. Spain is not normally a creditor nation, and not accustomed to granting credits to foreigners running into tens of millions of dollars. London does not readily obtain such credits there, nor does the United States, and if obtained at all it must be on the terms dictated in Spain.

The discount upon dollar credits in Spain is due to the close relation existing between the dollar and the pound sterling. The trade between Spain and the United States yields a balance favorable to the latter, but the trade between England and Spain is heavily against England, and since the pound sterling is artificially supported in New York it is possible for Madrid to convert its sterling credits into New York exchange thus enabling it to sell dollars. This situation has prompted some persons to say that arbitrage transactions, as such operations are called, should be forbidden, but arbitrage transactions on the whole effect great economies in international trade. The process of "clearing," by which all of the banks within a given territory settle with each other through a clearing-house, illustrates the principle of arbitrage trading in exchange. It is simply a shifting of international debits and credits to accomplish their settlement in the easiest manner.

Italian Exchange.

In our relations with Italy the situation is reversed from what it is in our relations with Spain. The mint par of the Italian lire in United States money is the same as that of the French and Swiss franc and the Spanish peseta, 19.3, but while peseta drafts have been selling in the last few days at better than 4 pesetas to the dollar, lire drafts have sold as low as 9 lire to the dollar. This shows the degree of confusion and disorganization which exists, and all because the free movements of the money metals are suspended, and no international medium of exchange exists.

A glance at the records of trade between the United States and Italy will show why exchange rates between these countries are demoralized. For the eight months ending with February exports from this country to Italy aggregated \$321,895,704, while imports from Italy aggregated \$20,611,789. For the corresponding months of the previous year exports were \$228,292,810 and imports \$32,116,168, and in 1915-16 our exports were \$181,361,820 and imports \$34,313,684. For the month of February last our exports were \$38,178,836, as compared with \$16,661,196 in corresponding month last year, and our imports \$1,904,962, as compared with \$2,351,837. It will be seen that Italy has been steadily and heavily increasing her purchases in this market and at the same time sending us fewer and fewer goods.

If Italy had favorable balances in her trade with other countries they might be converted by arbitrage transactions to offset these adverse balances here, but she has none that can be so used. Italians in this country are steady buyers of Italian exchange, but their remittances will not take care of a situation like this. The United States government has loaned important sums to Italy, but not enough to balance the trade account. The Italian government has taken several steps to regulate the situation, as by requiring all exchange transactions to be subject to the supervision of a government board, and recently forbidding transactions in futures. The latter creates a very serious obstacle to trade. An American exporter taking an order in Italy today will base his prices upon the relation of the lire to the dollar, but he will not dare to take an order in terms of lire unless at the time of taking the order he can arrange for converting lire into dollars.

It is perfectly evident that Italy cannot continue to buy in this country as she has been buying in the last year, unless credits are created here by which payments can be made, and in the present state of affairs there is only one possible source for such credits.

Government Assistance Necessary.

In such times as these international credits upon the scale required can only be arranged by governmental assistance. How else can a trade balance of \$300,000,000 in a year between Italy and the United States be managed? The credits granted by the government of Argentina to the governments of Great Britain, France and the United States aggregate \$240,000,000. This sum represents accruing trade balances; it is due, or will be due, to private citizens of Argentina, and their government undertakes to pay them and receive reimbursements later from the governments in whose favor the credits are granted. Eventually the exchanges will come into balance again, large sums will be owing in London and Paris upon capital employed in Argen-

tina, and these advances will probably be liquidated without the movement of gold, but meanwhile mutual interests are served by the establishment of these credits. Argentine products could not be sold unless means of payment were provided.

At this writing the Argentine credit arranged for two months or so ago, in favor of the United States is exhausted, and exchange rates are slightly more unfavorable to this country, although sustained by an expectation that an additional credit will be granted.

In our relations with Uruguay the situation is worse, with the dollar at a discount of about 20 per cent. Negotiations are pending there.

Canadian Exchange.

The balance of trade between Canada and this country is so largely in favor of the latter that New York drafts are at a premium of about two per cent. in Montreal. The Canadian government is considering an embargo upon certain

importations from this country as a means of restoring the balance, unless a credit can be established here. The Prime Minister, Sir Robert Borden, and Finance Minister, Sir Thomas White, are in this country for conferences in this city and Washington to determine what shall be done. Canada's problem in this instance is similar to ours with Argentina and Uruguay, and the remedy would seem to be a grant of credit by Washington or a shift of credit from London, as the balance between London and Montreal is understood to be in favor of the latter.

War Saving Stamps.

The sales of War Savings and Thrift stamps for the first 25 days of April aggregated \$53,838,215, or an average of \$2,153,528 per day. The sales are steadily increasing as the working organization is extended. The State of Nebraska, under the leadership of Mr. Ward Burgess of

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS APRIL 26, 1918. (In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'apl's	Kas.City	Dallas	S.F'r'sco	Total
Gold coin and certificates in vault.....	9,833	340,841	9,185	30,539	6,435	6,833	28,676	1,762	16,423	235	4,958	31,100	486,820
Gold Settlement Fund.....	69,868	85,774	43,393	49,733	11,156	16,680	71,325	17,179	13,180	33,567	10,345	17,277	439,477
Gold with foreign agencies.....	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	2,888	52,500
Total gold held by banks Gold with Federal Reserve Agents.....	83,376	444,727	56,253	84,997	19,428	25,088	107,351	21,041	31,703	36,427	17,141	51,265	978,797
Gold Redemption Fund.....	48,211	208,827	82,744	92,292	29,880	33,832	138,432	33,408	35,089	45,158	14,261	62,084	824,218
Total gold reserves.....	133,584	663,554	141,497	177,686	50,336	60,329	247,354	55,991	68,103	82,398	32,665	113,503	1,827,000
Legal tender notes, Silver, etc.....	2,074	47,484	1,450	763	393	1,102	5,069	1,888	361	292	2,709	360	63,945
Total Reserves.....	135,658	711,038	142,947	178,449	50,729	61,431	252,423	57,879	68,464	82,690	35,374	113,863	1,890,945
Bills discounted, Members Bills bought in open market.....	54,307	434,256	35,351	58,212	47,333	20,851	88,553	43,656	14,591	43,912	26,167	34,939	902,188
Total bills on hand.....	16,676	121,027	26,303	20,628	5,177	8,552	48,002	11,381	11,546	7,132	4,555	21,490	302,399
U. S. Government long-term securities.....	70,913	555,283	61,654	78,840	52,510	29,403	136,555	55,037	26,137	51,044	30,722	56,489	1,204,587
U. S. Government short-term securities.....	861	1,594	2,029	7,788	1,233	727	7,634	2,233	2,005	8,862	3,969	2,461	41,446
All other earning assets.....	1,421	2,319	4,163	11,004	1,523	1,226	4,072	511	1,934	4,645	2,632	1,957	37,407
Total Earning Assets Due fr. other F. R. Bks. net Uncollected Items.....	73,125	539,196	67,846	97,632	55,266	31,489	148,741	58,072	30,377	64,672	38,672	61,004	1,286,162
Total deduction from gross deposits.....	13	7,393	3,931	1,345	3,365	16,349	16,349	3,931	3,931	3,148	8,573	10,314	37,531
Net redemption fund against F. R. bank notes.....	21,446	87,194	39,242	32,552	25,631	19,974	49,821	31,622	7,797	25,371	20,711	17,170	378,531
All other resources.....	21,464	87,194	46,635	32,552	26,976	23,339	66,170	83,622	11,728	28,519	20,711	25,743	388,845
TOTAL RESOURCES.....	230,317	1,357,428	257,784	308,633	132,971	116,262	467,334	147,573	110,569	176,272	94,894	200,610	3,566,839
LIABILITIES													
Capital paid in.....	6,444	19,699	6,909	8,504	3,792	2,964	9,711	3,509	2,765	3,444	2,917	4,305	74,963
Surplus.....	75	619	8,448	9,408	19,050	7,069	4,496	11,273	6,037	10,459	3,605	20,198	130,668
Government Deposits.....	12,858	8,448	9,408	19,050	7,069	4,496	11,273	6,037	10,459	3,605	20,198	20,198	130,668
Due to members—reserve account.....	91,586	667,602	88,452	112,321	42,680	37,202	186,812	51,105	41,235	70,758	39,518	67,545	1,497,416
Collection Items.....	17,088	52,733	31,939	24,041	17,638	12,405	22,638	19,316	5,508	11,526	8,802	11,540	235,174
Due to other F. R. Bks. net Other deposits incl'd g. For. Government credits.....	75,815	75,815	178	178	14	2,077	39	22	22	7,895	3,745	81,890	81,890
Total Gross Deposits.....	121,532	829,672	129,799	159,132	67,387	54,717	229,294	82,694	52,802	92,743	56,156	103,028	1,945,148
F. R. Notes in actual circulation.....	101,467	500,640	121,076	140,236	61,580	58,541	227,155	60,867	54,731	71,330	35,622	92,987	1,526,232
F. R. Bank Notes in circulation, net liability.....													7,895
All other Liabilities incl. Foreign Govern't credits.....	799	6,768		761	96		958	503	233	860	199	290	11,467
TOTAL LIABILITIES.....	230,317	1,357,428	257,784	308,633	132,971	116,262	467,334	147,573	110,569	176,272	94,894	200,610	3,566,839

(a) Total Reserve notes in circulation, 1,526,232.

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 10,314: Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 59.3%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 61.3%.

(c) Bills discounted and bought: U. S. Government short term securities; municipal warrants, etc.: 1-15 days 678,823; 16-30 days 200,859; 31-60 days 222,296; 61-90 days 112,885; over 90 days 27,685. Total 1,242,548.

Omaha, leads all other states, having taken to April 1st \$14,343,991 of stamps, against \$12,273,783, by New York, the second State. Nebraska has bought an average of \$11.06 for every man, woman and child in the State, which sets a high mark for others to aim at. It is evidently going to raise its quota of the \$2,000,000,000 issue with ease.

Great Britain's Effort.

We gave last month a forecast of the figures for the British Government's fiscal year, which ended March 31st, but the complete figures are now available and are sufficiently remarkable to merit a re-statement. The total expenditures for the year, including loans to allies, were \$13,450,000,000, and the revenues \$3,536,172,000, leaving a deficit of approximately \$9,914,000,000, which was raised by various forms of borrowing. The national debt at the end of the year was \$29,401,000,000.

The Chancellor of the Exchequer has submitted to Parliament his budget for the new year. The estimated expenditures are \$14,860,985,000; revenues, including new taxation, \$4,210,250,000, balance to be raised by loans, approximately \$10,650,000,000. The national debt after another year of war will be about \$40,000,000,000. Against this there will be recoverable assets, including claims upon allies, of something like \$10,000,000,000.* The Chancellor stated that Great Britain had borrowed of the United States during the year only to the extent that it had loaned to its allies.

The new taxes proposed by the Government, like the existing levies, will fall mainly upon incomes and luxuries. The basic income tax is to be raised from 5 shillings in the pound sterling (25 per cent.) to 6 shillings (33 1-3 per cent.) and the super tax also will be raised. Tobacco, beer and spirits will pay considerably higher taxes, but the only new levies upon necessities are increases upon sugar and matches.

It is to be remembered, of course, that these figures are for the United Kingdom alone, and do not include the budgets of the British colonies and dependencies, which are all making similar expenditures in proportion to their resources, and, also, that while proposing to spend nearly \$15,000,000,000 in the coming year, the United Kingdom is about to raise the military age to 50 years. The enormous war burdens therefore are to be borne by that part of the nation remaining in industry after the able-bodied men between 18 and 51 are withdrawn from productive activity.

The proposals of the new man-power act now pending are summarized as follows:

1. AGE.—The raising of the military age to 50 years.
2. IRELAND.—The enactment of the principle that Irishmen are liable to compulsory military service for the defense of the Empire on the same terms as Englishmen, Scotsmen and Welshmen.

* For convenience the pound sterling has been converted at \$5.00 which makes all above figures slightly larger than upon precise computation.

3. EXEMPTIONS.—A complete recasting of the present system of appeal and exemption by the abolition of the principle of the granting of exemption by a tribunal, and the substitution for it in cases of proved necessity of a recommendation for the postponement of calling up for a given period.
4. A "COMB-OUT."—An immediate withdrawal of exemption from men in Grades 1 and 2 within the present military age limits, with the exception of those engaged in vital national work such as shipbuilding, agriculture, and the manufacture of aeroplanes, guns, tanks, and other munitions of war, and of others of proved indispensability.
5. THE CLERGY.—The bringing of clergymen and other ministers of religion within the orbit of the Service Acts by the offer of non-combatant work.
6. LADS OF 18.—The rescission of the decision that men shall not be sent to serve abroad before they attain the age of 19 years, subject to the conditions that the military age is not brought below the present limit of 18 years, and that, if lads are sent abroad before they are 19 years old, they shall not be used for service in the front line.
7. GOVERNMENT OFFICES.—The application of the same measure to men in clerical employment under the Government as to men in civilian employment elsewhere.
8. NEW TEST.—The application of a mixed test by physical fitness and occupation to the future grading of men of military age.
9. "CLEAN CUTS."—The summoning of recruits to the colours by "clean cuts" by age and grade.
10. LUXURY TRADES.—The abandonment of the principle by which so-called luxury trades have been allowed to keep (at a minimum) the framework of their businesses in being, and the definite assertion of the principle that the imperative needs of the State must override all private considerations.
11. NO INDUSTRIAL CONSCRIPTION.—The renewal of the pledge that no form of industrial conscription shall be introduced, but that the new measures shall be solely directed to military objects.

The policy embodied in this measure and in the budget proposals is one of absolute devotion of the resources of the nation to the prosecution of the war. France and Italy are doing likewise. Belgium and Serbia have given everything, and we in the United States must understand what others are doing in order to appreciate our own duty.

Discount Rates.

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to April 29, 1918.

FEDERAL RESERVE BANK,	MATURITIES.							
	DISCOUNTS						Trade Acceptances.	
	Within 15 days, including member banks' collateral notes	16 to 60 days, inclusive	61 to 90 days, inclusive	Agricultural and live-stock paper over 90 days	Secured by U. S. certificates of indebtedness or Liberty Loan bonds	Within 15 days, including member banks' collateral notes	16 to 90 days, inclusive	91 to 180 days, inclusive
Boston.....	4	4 1/2	4 3/4	5	4	4 1/2	4 3/4	4 1/2
New York.....	4	4 1/2	4 3/4	5	4	4 1/2	4 3/4	4 1/2
Philadelphia.....	4	4 1/2	4 3/4	5	4	4 1/2	4 3/4	4 1/2
Cleveland.....	4 1/2	4 3/4	4 5/8	5 1/2	4	4 1/2	4 3/4	4 1/2
Richmond.....	4 1/2	4 3/4	4 5/8	5	4	4 1/2	4 3/4	4 1/2
Atlanta.....	4	4 1/2	4 3/4	5	4	4 1/2	4 3/4	4 1/2
Chicago.....	4	4 1/2	4 3/4	5 1/2	4	4 1/2	4 3/4	4 1/2
St. Louis.....	4	4 1/2	4 3/4	5 1/2	4	4 1/2	4 3/4	4 1/2
Minneapolis.....	4	4 1/2	4 3/4	5 1/2	4	4 1/2	4 3/4	4 1/2
Kansas City.....	4	4 1/2	4 3/4	5 1/2	4	4 1/2	4 3/4	4 1/2
Dallas.....	4	4 1/2	4 3/4	5 1/2	4	4 1/2	4 3/4	4 1/2
S'n Francisco.....	4	4 1/2	4 3/4	5 1/2	4	4 1/2	4 3/4	4 1/2

*Rate of 3 to 4 1/2 per cent for 1-day discounts in connection with the loan operations of the Government.

Note 1.—Acceptances purchased in open market, minimum rate 4 per cent.

Note 2.—Rates for commodity paper have been merged with those for commercial paper of corresponding maturities.

Note 3.—In case the 60-day trade acceptance rate is higher than the 15-day discount rate, trade acceptances maturing within 15 days will be taken at the lower rate.

Note 4.—Whenever application is made by member banks for renewal of 15-day paper, the Federal Reserve banks may charge a rate not exceeding that for 90-day paper of the same class.

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